



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0404	Title:	Provide income tax credit for engineering and science tuition
Primary Sponsor:	Wittich, Art	Status:	As Introduced

- ☐ Significant Local Gov Impact
 ☐ Needs to be included in HB 2
 ☐ Technical Concerns
☐ Included in the Executive Budget
 ☐ Significant Long-Term Impacts
 ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$3,035,342)	(\$3,368,059)	(\$3,626,808)	(\$3,950,569)
Net Impact-General Fund Balance:	<u>(\$3,035,342)</u>	<u>(\$3,368,059)</u>	<u>(\$3,626,808)</u>	<u>(\$3,950,569)</u>

Description of fiscal impact: HB 404 creates a new, non-refundable individual income tax credit. The new credit would be available to individuals who graduate from Montana's University System with a bachelor's degree in engineering or computer science. The credit would be equal to 20% of the total tuition expenses incurred by the taxpayer and would be available every year for up to five years after graduation. The new tax credit would reduce general fund revenue by \$3.035 million in FY 2016, and \$3.950 million by FY 2019.

FISCAL ANALYSIS

Assumptions:

- HB 404 creates a new non-refundable individual income tax credit, starting in TY 2015. The proposed credit would be equal to 20% of the tuition costs incurred by individuals who graduate from Montana's University System (MUS) with a bachelor's degree in the field of engineering or computer science.
- As the proposed credit is non-refundable and is a fraction of total tuition costs, the revenue impact to the state's general fund will be determined by the number of MUS graduates with an engineering or computer

science degree who reside and work in the state each year, and the total income tax liability and total tuition costs of each qualified taxpayer.

3. According to MUS records, 74 people graduated with a bachelor's degree from the MUS with a computer science degree in CY 2014. During the same year, 498 people graduated from the MUS system with an engineering degree, with an additional 90 individuals graduating with an engineering technology bachelor's degree during the same year.
4. MUS records also report the number of computer science degrees awarded by the MUS system increased by 1.43% on average each year from CY 2002 through 2014. It is assumed that the number of computer science degrees awarded each year will increase by the annual average rate of 1.43% from CY 2015 through 2019. Based on the 74 computer science degrees awarded in CY 2014, and the annual average growth rate of 1.43%, the number of computer science degrees awarded by the MUS system is projected to increase to 75 in CY 2015 and 78 in CY 2018.
5. MUS records report that the number of engineering degrees awarded by the MUS system increased by 3.5% on average each year from CY 2002 through 2014. It is assumed that the number of engineering degrees awarded each year will increase by the annual average rate of 3.5% from CY 2015 through 2019. Based on the 498 engineering degrees awarded in CY 2014, and the annual average growth rate of 3.5%, the number of engineering degrees awarded by the MUS system is projected to increase to 515 in CY 2015 and 571 in CY 2018.
6. MUS records also report that the number of engineering technology degrees awarded by the MUS system decreased by 0.67% on average each year from CY 2002 through 2014. It is assumed that the number of engineering technology degrees awarded each year will decrease by the annual average rate of 0.67% from CY 2015 through 2019. Based on the 90 engineering technology degrees awarded in CY 2014, and the annual average growth rate of -0.67%, the number of engineering technology degrees awarded by the MUS system is projected to remain unchanged from CY 2015 through CY 2018 at 89 degrees.
7. Based on graduation records and unemployment insurance wage information, the MUS estimates that 76.3% of in-state residents who graduate with a bachelor's degree from a MUS university are employed within the state within a year. For non-residents, 50% are employed within a year. This fiscal note assumes that 76.3% of in-state resident MUS engineering and computer science bachelor degree graduates remain in Montana and are employed within the state, while 50% of out-of-state residents are.
8. MUS records indicate that 22.5% of the students attending a four year MUS university during the academic year 2014 – 2015 were out-of-state students. It is assumed that 22.5% of engineering and computer science graduates were out-of-state students as well.
9. For academic year 2014 – 2015, the weighted average tuition for an in-state full-time student within the 6 four year universities in the MUS system was \$6,198 per year. For an out-of-state full-time student, the weighted average tuition cost was \$20,983 per academic year.
10. MUS students receive financial aid, which reduces the total tuition costs for students during their time at the universities. For the academic year 2013 – 2014, the average first-time, full-time, resident student attending the MUS received \$4,365 in financial aid. Assuming that similar financial aid amounts are available for non-resident students and non-first year students, the weighted average tuition within the MUS system decreases to \$1,833 for a resident and \$16,618 for non-residents for the 2014 – 2015 academic year.
11. From academic year 2012 – 2013 to 2014 – 2015, tuition and fees increased by 0.56% each year on average for resident students, and 2.4% each year for non-residents. It is assumed that tuition and fees continue to increase each year by an average of 0.56% for residents and 2.4% for non-residents in MUS universities.
12. For an in-state student graduating in academic year 2014 – 2015 with a bachelor's degree in engineering, or computer science, the estimated total tuition cost would be \$7,272 if they graduated within four years. For out-of-state students, the four year cost would be \$64,128.

Academic Year	Tuition Based Credit Estimates					
	Average Annual Tuition Cost After Aid		Four Year Total Tuition Cost After Aid		Average Maximum Tax Credit	
	In-State	Out-Of-State	In-State	Out-Of-State	In-State	Out-Of-State
2010 - 2011	\$1,793	\$15,086				
2011 - 2012	\$1,803	\$15,455				
2012 - 2013	\$1,813	\$15,834				
2013 - 2014	\$1,823	\$16,221	\$7,231	\$62,596	\$1,446	\$12,519
2014 - 2015	\$1,833	\$16,618	\$7,272	\$64,128	\$1,454	\$12,826
2015 - 2016	\$1,843	\$17,015	\$7,313	\$65,688	\$1,463	\$13,138
2016 - 2017	\$1,854	\$17,421	\$7,353	\$67,275	\$1,471	\$13,455
2017 - 2018	\$1,864	\$17,838	\$7,395	\$68,892	\$1,479	\$13,778

13. HB 404 limits the income tax tuition credit to 20% of total tuition costs. With an average total tuition cost of \$7,231 for an in-state student in academic year 2013 – 2014, a graduate would be able to claim a maximum credit amount of \$1,446 in TY 2015. An out-of-state student who graduated in the same year and found employment in Montana would be able to claim a maximum credit amount of \$12,519 in TY 2015.
14. The income tax tuition credit created in HB 404 is a non-refundable tax credit, which limits the actual total credits that each taxpayer can claim to their total income tax liability.
15. According to the MUS, the average 2012 – 2013 graduate from one of their universities with an engineering degree earned an average of \$50,310 one year after graduation. Assuming each graduate filed a single tax return and took the standard deduction and personal exemption, the average engineering graduate would owe \$2,465 in individual income taxes to the State of Montana.
16. According to the MUS the average 2012 – 2013 graduate from one of their universities with a computer science degree earned an average of \$37,954 one year after graduation. Assuming each graduate filed a single tax return and took the standard deduction and personal exemption, the average computer science graduate would owe \$1,613 in individual income taxes to the State of Montana.
17. The average maximum tuition credit is smaller than the average taxes due for both in-state engineering and computer science degree graduates. Because of this, it is assumed that the tuition credit will reduce income tax collections for in-state graduates by the average maximum tax credit amount.
18. The average maximum tuition credit is larger than the average taxes due for both out-of-state engineering and computer science degree graduates. It is assumed that the tuition credit will reduce income tax collections for out-of-state graduates by the average tax liability for engineering or computer science graduates.
19. HJR 2 projects that wage and salary incomes in Montana will grow by 4.9% in FY 2015, 4.9% in FY 2016 and 5.2% in FY 2017. Based on HJR 2 projections, OBPP projects that wage and salary incomes will grow by 5.2% in FY 2018 and 5.1% in FY 2019.
20. It is assumed that the tax liability of out-of-state engineering and computer science graduates will increase each year by the projected wage and salary income growth rates developed in HJR 2 and by OBPP.
21. In FY 2016, there will be 1,577 residents of Montana filing an income tax return for TY 2015 who would qualify for the income tax tuition credit. Assuming each of the 1,577 residents qualifies for the average in-state credit amount of \$1,446, the credit will reduce total general fund revenue by \$2,280,342 for FY 2016.
22. The number of eligible claimants is anticipated to rise by FY 2019 as the cumulative effects of the eligible five-year cohort pool rises. There are projected to be 1,954 in-state residents who would qualify for the credit, resulting in a decrease in general fund revenue of \$2,874,334.
23. In FY 2016, there is projected to be 29 out-of-state computer science graduates who qualify for the tuition income tax credit. With a projected income tax liability of \$1,692, the 29 graduates will reduce income tax collections, and general fund revenue, by \$49,055. The reduction in general fund revenue increases to \$80,668 by FY 2019.
24. In FY 2016, there is projected to be 273 out-of-state engineering graduates who qualify for the tuition income tax credit. With a projected income tax liability of \$2,586, the 273 graduates will reduce income tax

collections, and general fund revenue, by \$705,945. The reduction in general fund revenue increases to \$995,567 by FY 2019.

25. The prior assumptions are summarized in the following table

Revenue Impact of Tuition Tax Credit in HB 404 as Introduced							
Fiscal Year	Number Qualified Graduates			Value of Effective Credits			Total Revenue
	In-State	Out-Of-State		In-State	Out-Of-State		
	Total	Computer Sci.	Engineering	Total	Computer Sci.	Engineering	
2016	1,577	29	273	\$2,280,342	\$49,055	\$705,945	(\$3,035,342)
2017	1,721	34	296	\$2,502,334	\$60,503	\$805,222	(\$3,368,059)
2018	1,824	38	310	\$2,668,512	\$71,137	\$887,159	(\$3,626,808)
2019	1,954	41	331	\$2,874,334	\$80,668	\$995,567	(\$3,950,569)

26. When tax credits for in-state graduates, out-of-state computer science graduates and out-of-state engineering graduates are combined, individual income tax collections are projected to decrease by \$3,035,342 in FY 2016. By FY 2019, general fund revenue is projected to decrease by \$3,950,569.

27. The Department of Revenue does not expect to incur any additional costs as a result of HB 404.

28. The bill provides for a sunset and would apply to tax years 2015 through 2024.

	FY 2016 <u>Difference</u>	FY 2017 <u>Difference</u>	FY 2018 <u>Difference</u>	FY 2019 <u>Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	(\$3,035,342)	(\$3,368,059)	(\$3,626,808)	(\$3,950,569)
TOTAL Revenues	(\$3,035,342)	(\$3,368,059)	(\$3,626,808)	(\$3,950,569)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$3,035,342)	(\$3,368,059)	(\$3,626,808)	(\$3,950,569)

Sponsor's Initials

Date

Budget Director's Initials

Date